

ASTRONICS CORP
Form 10-Q
November 07, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 29, 2007 or**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission File Number 0-7087

ASTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-0959303

(IRS Employer Identification Number)

130 Commerce Way, East Aurora, New York

(Address of principal executive offices)

14052

(Zip code)

(716) 805-1599

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(g) of the Act:

\$.01 par value Common Stock, \$.01 par value Class B Stock

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of September 29, 2007, 8,080,489 shares of common stock were outstanding consisting of 6,729,910 shares of common stock (\$.01 par value) and 1,350,579 shares of Class B common stock (\$.01 par value).

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ASTRONICS CORPORATION

Consolidated Balance Sheet

September 29, 2007

with Comparative Figures for December 31, 2006

(dollars in thousands except share amounts)

| | September 29, 2007 (Unaudited) | December 31, 2006 |
|--|---|-------------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 837 | \$ 222 |
| Accounts Receivable, net of allowance for doubtful accounts of \$585 in 2007 and \$314 in 2006 | 23,869 | 17,165 |
| Inventories | 37,800 | 31,570 |
| Prepaid Expenses | 1,080 | 1,067 |
| Deferred Income Taxes | 1,851 | 1,632 |
| Total Current Assets | 65,437 | 51,656 |
| Property, Plant and Equipment, at cost | 44,314 | 36,521 |
| Less Accumulated Depreciation and Amortization | 15,257 | 13,085 |
| Net Property, Plant and Equipment | 29,057 | 23,436 |
| Restricted Cash | 1,282 | |
| Deferred Income Taxes | 658 | 622 |
| Intangible Assets, net of accumulated amortization of \$822 in 2007 and \$637 in 2006 | 2,150 | 2,335 |
| Other Assets | 2,259 | 1,821 |
| Goodwill | 3,023 | 2,668 |
| Total Assets | \$ 103,866 | \$ 82,538 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION

Consolidated Balance Sheet

September 29, 2007

with Comparative Figures for December 31, 2006

(dollars in thousands except share amounts)

| | September 29, 2007 (Unaudited) | December 31, 2006 |
|--|---|-------------------------|
| Current Liabilities: | | |
| Current Maturities of Long-term Debt | \$ 949 | \$ 923 |
| Note Payable | 10,400 | 8,100 |
| Accounts Payable | 8,826 | 12,472 |
| Accrued Payroll and Employee Benefits | 5,615 | 4,403 |
| Income Taxes Payable | 711 | |
| Customer Advance Payments and Deferred Revenue | 6,513 | 6,864 |
| Other Accrued Expenses | 1,877 | 1,457 |
| Total Current Liabilities | 34,891 | 34,219 |
| | | |
| Long-term Debt | 15,086 | 9,426 |
| Supplemental Retirement Plan and Other Liabilities for Pension Benefits | 6,209 | 6,190 |
| Other Liabilities | 1,373 | 1,355 |
| | | |
| Shareholders' Equity: | | |
| Common Stock, \$.01 par value Authorized 20,000,000 shares, issued 7,408,348 in 2007, 7,313,726 in 2006 | 74 | 73 |
| Class B Stock, \$.01 par value Authorized 5,000,000 shares, issued 1,456,391 in 2007, 1,496,006 in 2006 | 15 | 15 |
| Additional Paid-in Capital | 6,623 | 5,504 |
| Accumulated Other Comprehensive (Loss) | (187) | (704) |
| Retained Earnings | 43,501 | 30,179 |
| | 50,026 | 35,067 |
| Less Treasury Stock: 784,250 shares in 2007 and 2006 | 3,719 | 3,719 |
| Total Shareholders' Equity | 46,307 | 31,348 |
| | | |
| Total Liabilities and Shareholders' Equity | \$ 103,866 | \$ 82,538 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Income and Retained Earnings
 Three and Nine Month Periods Ended September 29, 2007
 with Comparative Figures for 2006
 (Unaudited)
 (dollars in thousands except per share data)

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|------------------|--------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Sales | \$ 121,967 | \$ 81,847 | \$ 37,724 | \$ 27,752 |
| Costs and Expenses: | | | | |
| Cost of products sold | 88,740 | 63,550 | 27,582 | 21,633 |
| Selling, general and administrative expenses | 12,557 | 9,931 | 3,877 | 3,469 |
| Interest expense, net of interest income of \$38 in 2007 and \$5 in 2006 | 1,072 | 650 | 396 | 232 |
| Other (income) expense | (11) | (39) | | (5) |
| Total costs and expenses | 102,358 | 74,092 | 31,855 | 25,329 |
| Income Before Income Taxes | 19,609 | 7,755 | 5,869 | 2,423 |
| Provision for Income Taxes | 6,287 | 2,826 | 1,743 | 775 |
| Net Income | 13,322 | 4,929 | \$ 4,126 | \$ 1,648 |
| Retained Earnings: | | | | |
| Beginning of period | 30,179 | 24,443 | | |
| End of period | \$ 43,501 | \$ 29,372 | | |
| Earnings per share: | | | | |
| Basic | \$ 1.65 | \$ 0.62 | \$ 0.51 | \$ 0.21 |
| Diluted | \$ 1.56 | \$ 0.60 | \$ 0.48 | \$ 0.20 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Consolidated Statement of Cash Flows
 Nine Months Ended September 29, 2007
 With Comparative Figures for 2006
 (Unaudited)
 (dollars in thousands)

| | September 29, 2007 | September 30, 2006 |
|--|--------------------------|--------------------------|
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 13,322 | \$ 4,929 |
| Adjustments to Reconcile Net Income to Cash Provided By (Used For) | | |
| Operating Activities: | | |
| Depreciation and Amortization | 2,447 | 1,960 |
| Provision for Non-Cash Losses on Inventory and Receivables | (76) | (125) |
| Stock Compensation Expense | 610 | 493 |
| Deferred Tax Benefit | (305) | (6) |
| Other | (231) | |
| Cash Flows from Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (6,640) | (5,303) |
| Inventories | (5,645) | (7,745) |
| Prepaid Expenses | (652) | (347) |
| Accounts Payable | (3,742) | 4,422 |
| Accrued Expenses | 1,583 | 408 |
| Customer Advanced Payments and Deferred Revenue | (351) | (164) |
| Contract Loss Reserves | | (830) |
| Income Taxes | 943 | (410) |
| Supplemental Retirement and Other Liabilities | 100 | 64 |
| Cash Provided By (Used For) Operating Activities | 1,363 | (2,654) |
| Cash Flows from Investing Activities: | | |
| Capital Expenditures | (7,566) | (2,300) |
| Other | (172) | (74) |
| Cash Used For Investing Activities | (7,738) | (2,374) |
| Cash Flows from Financing Activities: | | |
| New Long-term Debt | 6,000 | |
| Unexpended Industrial Bond Proceeds | (1,282) | |
| Principal Payments on Long-term Debt | (538) | (529) |
| Proceeds from Note Payable | 20,500 | 3,200 |
| Payments on Note Payable | (18,200) | (2,300) |
| Proceeds from Exercise of Stock Options | 332 | 988 |
| Income Tax Benefit from Exercise of Stock Options | 178 | (83) |

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| | | |
|--|--------|---------|
| Cash Provided By Financing Activities | 6,990 | 1,276 |
| Effect of Exchange Rates on Cash | | (76) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 615 | (3,828) |
| Cash at Beginning of Period | 222 | 4,473 |
| Cash at End of Period | \$ 837 | \$ 645 |

See notes to consolidated financial statements.

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ASTRONICS CORPORATION
Notes to Consolidated Financial Statements

September 29, 2007

(Unaudited)

1) Basis of Presentation

The accompanying unaudited statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. Operating results for the three and nine month periods ended September 29, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The 2007 third quarter reflects a \$0.9 million adjustment made during the quarter relating to estimated 2007 manufacturing overhead cost absorption. The effect of this adjustment was to increase pre-tax income in the third quarter by approximately \$0.6 million.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in Astronics Corporation's (the Company) 2006 annual report on Form 10-K.

2) Stock Based Compensation

The Company has stock option plans that authorize the issuance of options for shares of Common Stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to the Company and provide incentives for recipients to remain with the Company. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Common Stock on the grant date. Options become exercisable over periods not exceeding ten years. The Company's practice has been to issue new shares upon the exercise of the options.

During the first quarter of 2006, the Company adopted SFAS 123(R), Share-Based Payment, applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized in the statement of earnings based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The Company uses a straight-line method of attributing the value of stock-based compensation expense, subject to minimum levels of expense, based on vesting. Stock compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest six months from the date of grant and options granted to officers and key employees straight line vest over a five-year period from the date of grant.

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of the options was \$7.85 for options granted during the nine month period ended September 29, 2007 and was \$6.05 for options granted during the nine month period ended September 30, 2006. The following table provides the range of assumptions used to value stock options granted during the nine months ended September 29, 2007 and September 30, 2006.

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| | Nine Months Ended | |
|--------------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 |
| Expected volatility | 0.34 | 0.34 |
| Risk-free rate | 4.50% | 4.70% |
| Expected dividends | 0.00% | 0.00% |
| | 7 | |
| Expected term (in years) | Years | 7 Years |

To determine expected volatility, the Company uses historical volatility based on weekly closing prices of its Common Stock and considers currently available information to determine if future volatility is expected to differ over the expected terms of the options granted. The risk-free rate is based on the United States Treasury yield curve at the time of grant for the appropriate term of the options granted. Expected dividends are based on the Company's history and expectation of dividend payouts. The expected term of stock options is based on vesting schedules, expected exercise patterns and contractual terms.

The table below reflects the impact stock compensation expense had on net earnings for the three and nine months ended September 29, 2007 compared to the three and nine months ended September 30, 2006 as follows:

| (in thousands) | Nine Months Ended | | Three Months Ended | |
|--|---------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Stock compensation expense | \$ 610 | \$ 493 | \$ 223 | \$ 164 |
| Tax benefit | (100) | (79) | (41) | (28) |
| Stock compensation expense, net of tax | \$ 510 | \$ 414 | \$ 182 | \$ 136 |

A summary of the Company's stock option activity and related information for the nine months ended September 29, 2007 is as follows:

| (Aggregate value in thousands) | Number of Options | 2007 | Aggregate Intrinsic Value |
|-----------------------------------|----------------------|---|---------------------------------|
| | | Weighted Average Exercise Price per option | |
| Outstanding at December 31, 2006 | 818,182 | \$ 7.31 | \$ 29,667 |
| Options Granted | 25,000 | 17.60 | 649 |
| Options Exercised | (56,730) | 6.42 | (2,108) |
| Options Forfeited | (800) | 5.49 | (30) |
| Outstanding at September 29, 2007 | 785,652 | 7.71 | 28,173 |
| Exercisable at September 29, 2007 | 536,322 | \$ 7.02 | \$ 19,603 |

The aggregate intrinsic value in the preceding table represents the total pretax option holder's intrinsic value, based on the Company's closing stock price of Common Stock of \$43.57 as of September 29, 2007, which would have been received by the option holders had all option holders exercised their options as of that date.

The fair value of options vested since December 31, 2006 is \$0.4 million. At September 29, 2007, total compensation costs related to non-vested awards not yet recognized amounts to \$0.9 million and will be recognized over a weighted average period of 2.1 years.

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The following is a summary of weighted average exercise prices and contractual lives for outstanding and exercisable stock options as of September 29, 2007:

| Exercise Price Range | Shares | Outstanding | Weighted | Exercise | Exercisable |
|----------------------|---------|--|----------|----------|-------------|
| | | Weighted Average Remaining Life | | | Price |
| \$ 4.59 | 28,188 | 0.4 | \$ 4.59 | 28,188 | \$ 4.59 |
| \$ 5.09 \$7.65 | 530,240 | 5.7 | 5.62 | 396,014 | 5.61 |
| \$ 9.83 \$13.41 | 148,624 | 6.7 | 10.61 | 87,120 | 11.16 |
| \$17.36 \$17.60 | 78,600 | 9.3 | 17.44 | 25,000 | 17.60 |
| | 785,652 | 6.1 | 7.71 | 536,322 | 7.02 |

3) Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill for 2007 and 2006:

| (in thousands) | Sept 29, 2007 | December 31, 2006 |
|-------------------------------|------------------|-------------------------|
| Balance beginning of period | \$ 2668 | \$ 2,686 |
| Foreign currency translations | 355 | (18) |
| Balance end of period | \$ 3,023 | \$ 2,668 |

The following table summarizes acquired intangible assets as follows:

| (in thousands) | Weighted Average Life | September 29, 2007 | | December 31, 2006 | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | 12 Years | \$ 1,271 | \$ 264 | \$ 1,271 | \$ 190 |
| Trade Names | N/A | 553 | | 553 | |
| Completed and Unpatented Technology | 10 Years | 487 | 130 | 487 | 93 |
| Government Contracts | 6 Years | 347 | 154 | 347 | 111 |
| Backlog | 4 Years | 314 | 274 | 314 | 243 |
| Total Intangible Assets | | \$2,972 | \$ 822 | \$2,972 | \$ 637 |

Amortization is computed on the straight-line method for financial reporting purposes. Amortization expense was \$0.1 million and \$0.1 million for the three months ended September 29, 2007 and September 30, 2006 respectively

and was \$0.2 million and \$0.2 million for the nine months ended September 29, 2007 and September 30, 2006 respectively. Amortization expense for each of the next five years is expected to be approximately \$0.2 million for each year.

4) Inventories

Inventories are stated at the lower of cost or market, cost being determined in accordance with the first-in, first-out method. Inventories are as follows:

| (in thousands) | Sept 29, 2007 | December 31, 2006 |
|------------------|------------------|-------------------------|
| Finished Goods | \$ 5,736 | \$ 5,575 |
| Work in Progress | 8,081 | 9,651 |
| Raw Material | 23,983 | 16,344 |
| | \$ 37,800 | \$ 31,570 |

Table of Contents**5) Comprehensive Income and Accumulated Other Comprehensive Income**

The components of comprehensive income are as follows:

| (in thousands) | Nine Months Ended | | Three Months Ended | |
|---|-------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Net income | \$ 13,322 | \$ 4,929 | \$ 4,126 | \$ 1,648 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | 453 | 89 | 215 | 18 |
| Accumulated Retirement Liability Adjustment, net of tax | 72 | | 24 | |
| Loss on derivatives, net of tax | (8) | (50) | (40) | (55) |
| Comprehensive income | \$ 13,839 | \$ 4,968 | \$ 4,325 | \$ 1,611 |

The components of accumulated other comprehensive income is as follows:

| (in thousands) | Sept 29, 2007 | December 31, 2006 |
|--|------------------|-------------------------|
| Cumulative foreign currency translation adjustments | \$ 1,228 | \$ 775 |
| Accumulated Retirement Liability Adjustment, net of tax of \$817 for 2007 and \$859 for 2006 | (1,359) | (1,431) |
| Accumulated loss on derivatives, net of tax of \$31 for 2007 and \$27 for 2006 | (56) | (48) |
| Accumulated other comprehensive (loss) | \$ (187) | \$ (704) |

6) Earnings Per Share

The following table sets forth the computation of earnings per share:

| (in thousands, except per share data) | Nine Months Ended | | Three Months Ended | |
|--|-------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Net Income | \$ 13,322 | \$ 4,929 | \$ 4,126 | \$ 1,648 |
| Basic earnings per share weighted average shares | 8,064 | 7,933 | 8,072 | 7,951 |
| Net effect of dilutive stock options | 467 | 277 | 533 | 313 |
| Diluted earnings per share weighted average shares | 8,531 | 8,210 | 8,605 | 8,264 |
| Basic earnings per share | \$ 1.65 | \$ 0.62 | \$ 0.51 | \$ 0.21 |
| Diluted earnings per share | \$ 1.56 | \$ 0.60 | \$ 0.48 | \$ 0.20 |

7) Supplemental Retirement Plan and Related Post Retirement Benefits

The Company has a non-qualified supplemental retirement defined benefit plan for certain executives. The following table sets forth information regarding the net periodic pension cost for the plan.

| (in thousands) | Nine Months Ended | | Three Months Ended | |
|--------------------------------------|---------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Service cost | \$ 30 | \$ 27 | \$ 10 | \$ 9 |
| Interest cost | 240 | 231 | 80 | 77 |
| Amortization of prior service cost | 81 | 81 | 27 | 27 |
| Amortization of net actuarial losses | 3 | 3 | 1 | 1 |
| | \$ 354 | \$ 342 | \$ 118 | \$ 114 |

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Participants in the non-qualified supplemental retirement plan are entitled to paid medical, dental and long-term care insurance benefits upon retirement under the plan. The following table sets forth information regarding the net periodic cost recognized for those benefits:

| (in thousands) | Nine Months Ended | | Three Months Ended | |
|--------------------------------------|---------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Service cost | \$ 6 | \$ 6 | \$ 2 | \$ 2 |
| Interest cost | 33 | 33 | 11 | 11 |
| Amortization of prior service cost | 24 | 24 | 8 | 8 |
| Amortization of net actuarial losses | 6 | 9 | 2 | 3 |
| | \$ 69 | \$ 72 | \$ 23 | \$ 24 |

8) Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company believes that its income tax filing positions and deductions will be sustained on audit. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, and, the Company was not required to record a cumulative effect adjustment related to the adoption of FIN 48.

In the future, should the Company need to accrue a liability for unrecognized tax benefits, any interest associated with that liability will be recorded as interest expense. Penalties, if any, would be recognized as operating expenses. There are no penalties or interest liability accrued as of September 29, 2007. In years previous, any interest and penalties were insignificant and recorded as income tax expense. The years under which the Company conducted its evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2004, 2005 and 2006.

Prior to January 1, 2007, the Company recorded accruals for tax contingencies and related interest when it was probable that a liability had been incurred and the amount of the contingency could be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority.

9) Sales To Major Customers

The Company has a significant concentration of business with one customer. Sales to Panasonic Avionics Corporation amounted to approximately 24% and 31% of revenue during the third quarter 2007 and 2006 respectively and approximately 28% and 22% of year to date revenue in 2007 and 2006, respectively. Accounts receivable for this customer amounted to 13% and 11% of the Company's gross trade receivables as of September 29, 2007 and December 31, 2006, respectively.

Table of Contents**10) Product Warranties**

In the ordinary course of business, the Company warrants its products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. The Company determines warranty reserves needed by product line based on experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

| (in thousands) | Nine Months Ended | | Three Months Ended | |
|--------------------------------|---------------------|------------------|---------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Balance at beginning of period | \$ 823 | \$ 338 | \$ 1,303 | \$ 610 |
| Warranties issued | 761 | 613 | 88 | 180 |
| Warranties settled | (563) | (248) | (370) | (87) |
| Balance at end of period | \$ 1,021 | \$ 703 | \$ 1,021 | \$ 703 |

11) Long Term Debt and Notes Payable

Long-term debt consists of the following:

| (In thousands) | Sept 29, 2007 | December 31, 2006 |
|---|------------------|-------------------------|
| Note Payable at Canadian Prime payable \$12 monthly through 2016 with interest (Canadian prime was 6.25% at September 29, 2007) | \$ 1,482 | \$ 1,376 |
| Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency payable \$350 annually through 2019 with interest reset weekly (3.7% at September 29, 2007) | 3,995 | 3,995 |
| Industrial Revenue Bonds issued through the Business Finance Authority of the State of New Hampshire payable \$400 annually through 2018 with interest reset weekly (3.7% at September 29, 2007) | 4,450 | 4,850 |
| Industrial Revenue Bonds issued through the Erie County, New York Industrial Development Agency. Principal payments start April 2009, payable \$350 annually through April 2027. Interest payable monthly at variable tax exempt bond rate that is adjusted weekly (3.7% at September 29, 2007) | 6,000 | |
| Other | 108 | 128 |
| | 16,035 | 10,349 |
| Less current maturities | 949 | 923 |
| | \$ 15,086 | \$ 9,426 |

Principal maturities of long-term debt are \$0.9 million in 2007 and 2008 and are \$1.2 million in 2009 thru 2011. No interest was capitalized in the third quarter relating to the building expansion, in East Aurora, New York, \$0.06 million was capitalized for the nine months ended September 29, 2007. No interest costs were capitalized in 2006.

At September 29, 2007 the Company had \$10.4 million outstanding on its revolving \$25 million credit facility; interest at bank prime less up to 25 basis points or LIBOR plus between 87.5 and 175 basis points. The Company is also required to pay a commitment fee of between 0.125% and 0.30% on the unused portion of the line limit

borrowing availability for the previous quarter. The Company may allocate up to \$0.5 million of its availability for the issuance of new letters of credit. At September 29, 2007, the Company had available \$14.6 million on the facility. This credit facility is collateralized by accounts receivable and inventory. The Company believes it will be compliant in the future with all the new credit facility covenants.

12) New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of

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fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. It will be effective for the Company in fiscal 2008 and interim periods within that fiscal year. The Company is in the process of determining the effect the adoption of SFAS No. 157 will have, if any, on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company is in the process of determining the effect the adoption of SFAS No. 159 will have, if any, on our consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the year ended December 31, 2006.)

The following table sets forth income statement data as a percent of net sales:

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|------------------|--------------------|------------------|
| | Sept 29, 2007 | Sept 30, 2006 | Sept 29, 2007 | Sept 30, 2006 |
| Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 72.8 | 77.6 | 73.1 | 78.0 |
| Selling, general and administrative and other expense | 10.3 | 12.1 | 10.3 | 12.5 |
| Interest expense | 0.9 | 0.8 | 1.0 | 0.8 |
| Total cost and expenses | 84.0 | 90.5 | 84.4 | 91.3 |
| Income before taxes | 16.0% | 9.5% | 15.6% | 8.7% |

SALES

Sales for the third quarter of 2007 increased 35.6% to \$37.7 million compared with \$27.8 million for the same period last year. The sales growth was primarily attributable to an increase in volume of our cabin electronics product line sold to the commercial transport market and increased cockpit lighting products sold to the business jet markets. Sales to the commercial transport market were \$23.1 million, as compared to \$15.0 million for the same period of 2006, an increase of \$8.1 million or 54.2% due to volume. Increased demand by global commercial airlines for in-flight entertainment systems and in-seat power systems that utilize our cabin electronics technology drove the sales increase in the commercial transport market. Sales to the business jet market were \$7.6 million, up \$1.3 million, or 20.3%, compared with sales of \$6.3 million for the same period in 2006. The increase of sales to the business jet market was due primarily to a general increase in volume as the Business Jet OEM's production rates have increased. Additionally, many of these new aircraft contain a higher Astronics ship set content than in previous years. Sales to the military market were \$6.7 million as compared to \$6.1 million last year, an increase of \$0.6 million or 9.7%.

2007 year to date sales increased 49.0% to \$122.0 million compared with \$81.8 million for the same period last year. The sales growth was primarily attributable to an increase in volume of cabin electronics sales to the commercial transport market and increased sales of cockpit lighting and airframe power to the business jet market. Sales to the commercial transport market were up \$35.0 million, or 78.8% to \$79.4 million compared with \$44.4 million last year. The increase was a result of increased demand by global commercial airlines for in-flight entertainment systems and in-seat power systems that utilize our cabin electronics technology. Over the past

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several years, many airlines initiated programs to upgrade and refurbish the cabins on a portion of their existing fleets, installing in-flight entertainment and in-seat power systems that utilize our products. In addition, more of the new aircraft deliveries to the airlines have included in-flight entertainment and in-seat power systems that utilize our products. Sales to the business jet market were \$22.0 million, up \$5.3 million, or 31.7%, compared with \$16.7 million for the same period in 2006. Business Jet OEM's production rates have increased. Additionally, many of these new aircraft contain a higher Astronics ship set content than in previous years. Sales to the military market were flat in 2007 as compared to 2006 at \$19.7 million.

Each of the markets that we serve continues to present opportunities that we expect will provide continued growth for the Company. We are projecting 2007 revenues to be \$155 million to \$160 million, driven by a strong global and aerospace economy.

EXPENSES AND MARGINS

Cost of products sold as a percentage of sales decreased to 73.1% for the third quarter of 2007 as compared to 78.0% for the same period last year. That decrease was the result of the leverage provided by the sales increase offset by \$1.3 million increase of engineering and development costs. The 2007 third quarter reflects a \$0.9 million adjustment made during the quarter relating to 2007 estimated manufacturing overhead cost absorption, see footnote 1 in the Notes to Consolidated Financial Statements. The effect of this adjustment was to reduce cost of products sold by \$0.9 million for the third quarter of 2007.

Year to date cost of products sold as a percentage of sales decreased to 72.8% as compared to 77.6% for the same period last year. That decrease was the result of the leverage provided by the sales increase offset by \$3.3 million increase of engineering and development costs.

Selling, general and administrative and other (SG&A) expenses were \$3.9 million in the third quarter of 2007, up from \$3.5 million in the same period last year. As a percent of sales, SG&A expense was 10.3% for the third quarter of 2007 as compared to 12.5% for the same period in 2006 as sales grew at a faster pace than SG&A spending. The increase in total dollars was primarily due to increased wages and benefits due to increased staffing and compensation related costs.

Year to date selling, general and administrative and other (SG&A) expenses were \$12.5 million, up from \$9.9 million in the same period last year. As a percent of sales, year to date SG&A expense was 10.3% in 2007 as compared to 12.1% for the same period in 2006 as sales grew at a faster pace than SG&A spending. The increase in total dollars was primarily due to increased wages and benefits due to increased staffing and compensation related costs.

Net interest expense for the third quarter of 2007 was \$0.4 million compared to 2006 which was \$0.2 million. Net interest expense for the first nine months of 2007 was \$1.1 million compared to 2006 which was \$0.7 million. Net interest expense increased due to a combination of higher debt levels and increases in interest rates. During 2007 the Company capitalized interest relating to the expansion of its East Aurora, New York plant. 2007 year to date capitalized interest was \$0.06 million. No interest was capitalized during the third quarter of 2007 as the facility was put into service.

TAXES

The effective income tax rate for the third quarter of 2007 was 29.7% compared to 32.0% last year. The decreased effective rate in 2007 was primarily due to an increase in the Qualified Production Activities Deduction for 2007 and decreases in foreign and state taxes.

The 2007 year to date effective income tax rate was 32.1% compared to 36.4% last year. The decreased effective rate in 2007 was primarily due to an increase in the Qualified Production Activities Deduction for 2007 and decreases in foreign and state taxes.

The Company expects its effective tax rate to approximate the statutory rates in the future.

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NET INCOME AND EARNINGS PER SHARE

Net income for the third quarter of 2007 was \$4.1 million or \$0.48 per diluted share, an increase of \$2.5 million from \$1.6 million, or \$0.20 per diluted share in the third quarter of 2006.

Year to date net income was \$13.3 million or \$1.56 per diluted share, an increase of \$8.4 million from \$4.9 million, or \$0.60 per diluted share. The earnings per share increase was due to increased net income and was not significantly impacted by a change in shares outstanding.

LIQUIDITY

Cash provided by operating activities totaled \$1.4 million during the first nine months of 2007, as compared with cash used by operating activities of \$2.7 million during the first nine months of 2006. The change was due primarily to net income exceeding increased investment in net working capital components, primarily inventory and receivables associated with our increasing sales.

Cash used in investing activities was \$7.7 million in the first nine months of 2007, an increase of \$5.3 million compared to \$2.4 million used in the first nine months of 2006. This was due primarily to \$3.1 million spent during the first nine months on the East Aurora facility expansion and investment in machinery and equipment to add production capacity.

In the first nine months of 2007 cash provided by financing activities totaled \$7.0 million. The Company had net borrowings of \$2.3 million against its revolving credit facility to provide financing for investment in working capital components and fixed asset acquisition. Proceeds from the issuance of long term debt to finance the building expansion in East Aurora totaled \$6.0 million.

At September 29, 2007 the Company had \$10.4 million outstanding on its \$25 million revolving credit facility. The agreement is a committed two year facility through January 5, 2009. At September 29, 2007, the Company was in compliance with all of the covenants pursuant to the credit facility.

During the third quarter of 2006 the Company committed to proceed with a facility and equipment expansion to its East Aurora, NY operation. The building was substantially completed in the third quarter of 2007 and added 57,000 square feet of production capacity. When the project is complete, the cost for the building, including the initial acquisition of machinery and equipment is expected to be approximately \$7.5 million.

On April 24, 2007, to fund a portion of the expansion to its facility in East Aurora, New York and the acquisition of additional equipment to be located at such, Luminescent Systems, Inc., a subsidiary of the Company, entered into a tax exempt industrial revenue bond transaction. Under this bond transaction, the Erie County Industrial Development Agency issued on April 24, 2007 tax exempt bonds in the principal amount of \$6.0 million to pay for qualified project costs. Approximately \$3.2 million of the proceeds from this debt issuance was used immediately to pay down the unsecured revolving credit facility which was used for qualified project expenditures. The balance will be drawn as qualified project expenditures are incurred. These Bonds mature on April 1, 2027. The interest rate applicable to the Bonds is a variable tax exempt bond rate that is adjusted weekly, based upon a minimum rate of interest necessary to enable the Remarketing Agent to remarket the Bonds at par. The interest rate was 3.7% at September 29, 2007. The obligations are secured by a mortgage on the Company's facility in East Aurora, New York and a security interest in the equipment at such facility. The obligations of the Company and Luminescent Systems Inc. are also secured by a pledge by the Company of the stock of the Company's subsidiary, Astronics Advanced Electronic Systems Corp. The Company's cash needs for working capital, capital equipment and debt service during 2007 and the foreseeable future, are expected to be met by cash flows from operations, and if necessary, utilization of its revolving credit facility.

BACKLOG

The Company's backlog at September 29, 2007 was \$90.0 million compared with \$88.1 million at September 30, 2006.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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The Company's contractual obligations and commercial commitments have not changed materially from disclosures in the Company's Form 10-K for the year ended December 31, 2006, with the exception of the \$0.7 million construction obligation at December 31, 2006 relating to the expansion project in East Aurora, NY. We believe that this obligation has been satisfied.

MARKET RISK

Risk due to fluctuation in interest rates is a function of the Company's floating rate debt obligations, which total approximately \$12.0 million at September 29, 2007. To partially offset this exposure, the Company entered into an interest rate swap in February 2006, on its New York Industrial Revenue Bond which effectively fixes the rate at 3.99% on this \$4.0 million obligation through January 2016. As a result, a change of 1% in interest rates would impact annual net income by less than \$0.1 million.

There have been no material changes in the current year regarding the market risk information for its exposure to currency exchange rates. The Company has limited exposure to fluctuation in Canadian currency exchange rates to the U.S. dollar.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for a complete discussion of the Company's market risk.

CRITICAL ACCOUNTING POLICIES

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2006 for a complete discussion of the Company's critical accounting policies. Other than the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), (see Note 8 of the Notes to Consolidated Financial Statements) there have been no significant changes in the current year regarding critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is in the process of determining the effect the adoption of SFAS No. 157 will have, if any, on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal 2008. The Company is in the process of determining the effect the adoption of SFAS No. 159 will have, if any, on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involves uncertainties and risks. These statements are identified by the use of the words believes, expects, intends, anticipates, may, will, estimate, potential and words of similar import cautioned not to place undue reliance on these forward looking statements as various uncertainties and risks could cause actual results to differ materially from those anticipated in these statements. These uncertainties and risks include the success of the Company with effectively executing its plans; the timeliness of product deliveries by vendors and other vendor performance issues; changes in demand for our products from the U.S. government and other customers; the acceptance by the market of new products developed; our success in cross-selling products to different customers and markets; changes in government contracts; the state of the commercial and business jet aerospace market; the Company's success at increasing the content on current and new aircraft platforms; the level of aircraft build rates; as well as other general economic conditions and other factors.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk in Item 2, above.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 29, 2007. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 29, 2007.

During the Company's 2006 year-end audit the Company became aware that its revenue recognition policy with regard to a bill and hold arrangement with one customer did not meet all of the criteria necessary to allow it to recognize revenue for the transaction while the product remained in the Company's facility. As such Management concluded that a material weakness in the Company's internal control over financial reporting existed at December 31, 2006. The Company believes it has taken appropriate action to remediate the weakness during the first quarter of 2007, which includes training with regard to bill and hold arrangements and approval of any proposed bill and hold arrangement by the CEO and CFO of the Company. There were no other material changes in the Company's internal control over financial reporting during the third quarter 2007.

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None.

Item 1a Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report of Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The Company has a significant concentration of business with Panasonic Avionics Corporation. A significant reduction in sales would negatively impact our sales and earnings. We provide Panasonic with cabin electronics products which, in total were approximately 29% of revenue for the first quarter, 29% of revenue for the second quarter and 24% of revenue for the third quarter of 2007.

Item 2. Unregistered sales of equity securities and use of proceeds.

(c) The following table summarizes the Company's purchases of its common stock for the quarter ended September 29, 2007:

| Period | (a) Total number of shares Purchased | (b) Average Price Paid per Share | (c) Total number of shares Purchased as part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------|---|--|---|---|
| July 1 July 28, 2007 | | | | 432,956 |
| July 29 Aug 25, 2007 | | | | 432,956 |
| Aug 26 Sept 29, 2007 | | | | 432,956 |
| Total | | | | 432,956 |

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Item 5. Other Information.

None.

Item 6 Exhibits.

Exhibit 31.1 Section 302 Certification Chief Executive Officer

Exhibit 31.2 Section 302 Certification Chief Financial Officer

Exhibit 32. Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASTRONICS CORPORATION

(Registrant)

Date: November 7, 2007

By: /s/ David C. Burney

David C. Burney
Vice President-Finance and Treasurer
(Principal Financial Officer)

Date: November 7, 2007

By: /s/ Peter J. Gundermann

Peter J. Gundermann
President and Chief Executive Officer
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